

CHAPTER XXI.

BANKING AND EXCHANGE IN THE ORIENT.

Difficulties in Exchange in Silver Countries Caused by Fluctuations in the Gold Value of Silver—Relief Sought by Adoption of the Gold-Exchange Standard — Successful Evolution of the Plan in Java—The More Difficult Problem in British India—Suspension of the Rupee Coinage in 1893—Success of the Policy of 1898— The Indian Banks—The Gold-Exchange Standard in the Philippine Islands—The Exchange Problem in Hong-kong and the Straits, China, Siam, and French Indo-China.

THE conditions of banking in the Orient were dominated for more than a generation by the fluctuations in the gold value of silver and by the importance which this fact gave to exchange relations with gold countries. The most important banks derived their profit for many years from these fluctuations in rates of exchange rather than from commercial discounts. Their interests ran counter to some extent to those of the business community, whose operations in the import and export trade were constantly exposed to hazard by the tincertainty as to what would be the gold value of silver obtained for imports from gold countries and what would be the silver value of gold obtained for exports to gold countries. The almost uninterrupted fall in the gold value of silver from 1873 to 1903 not only caused many difficulties in trade, but tended gradually to check investments of capital from the wealthy gold countries.'

¹ This subject is more fully discussed in the author's *Principles of Money and Banking*, under "The Dislocation of the Exchanges," I., 339* *seq.*